You Asked About
Annual General Assessments

The Spruce Grove Experience

Alberta
Municipal Affairs

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INTRODUCTION

Many municipal officials and administrators have asked about the Spruce Grove experience with annual general assessments. This report provides a brief overview of the process and the results.

Briefly, the benefits of annual general assessments as demonstrated in Spruce Grove's experience are that revenues can be predicted with greater accuracy and that the peaks arising from broad economic changes are leveled off so that property owners are not confronted with dramatic tax increases. Taxpayers also gained a better understanding of the assessment process and, as a result, Spruce Grove received fewer complaints about assessment and property taxes.

What is a general assessment?

When a general assessment is undertaken, every property in the municipality is visited by an assessor who assigns a value on land and improvements (buildings on the property).

Alberta municipalities conduct general assessments on differing schedules, usually every eight years. General assessments are required by law and are necessary in order to adjust imbalances that may have occurred due to changing values (land or improvements) since the base year. The base year is the year prior to the last general assessment.

The longer the period of time between general assessments, the greater the shift between the possible value of properties. In some municipalities this results in updated assessment on land and improvements that is many times higher than the previous year's. The reason for this, of course, is that the values are out-of-date, reflecting values of eight or nine years previous.

How is assessment determined?

Assessment is based on the market value of land and replacement cost of improvements and by comparing similar properties. For example: In urban areas, assessed values for land are arrived at on the basis of market value or comparison with the selling price of similar land in similar areas. The assessment reflects key factors such as local zoning, traffic levels, location of schools, shopping centres, recreational facilities and churches in relationship to the property. Improvements, such as a home or other building, are valued by estimating replacement cost based on a formula which is standard throughout Alberta. Depreciation is allowed based on the age and condition of the building.

Here is how it works. Beginning with values established in the base year, a new bungalow built on a standard-sized lot could be assessed as follows:

Value of Land	
Market value	$40,000
65 percent of market value	$26,000
Value of improvements	
1,200 sq. ft. at $50 per sq. ft.	$60,000
65 percent of replacement cost	$39,000
Total assessed value, land and improvements	**$65,000**

A similar bungalow, but four years old, also built on a standard-sized lot could be assessed on the value of improvements as follows:

1,200 sq. ft. at $50 per sq. ft.	$60,000
96 percent depreciated value	$57,600
65 percent of replacement cost	$37,440
Total assessed value, land and improvements	$63,440

All buildings (residential, commercial and industrial) are assessed on the basis of 65 percent of replacement cost.

How are budgets and taxes related?

Nobody likes to pay taxes, but ratepayers want to have the best and most convenient services, well-maintained roads, first-rate fire and police protection, as well as the best possible education system. On the other hand, they want their council to control spending and keep taxes down.

Councils make every effort to respond to these conflicting demands in a responsible and realistic fashion.

In drafting the annual operating budget, they estimate the level of service and necessary improvements the municipality can pay for. Part of the operating funds come from the provincial

government in the form of grants to help support schools, maintain and build roads and hospitals. The provincial and federal governments also contribute through grants in lieu of taxes. The total of these grants is subtracted from the amount council has estimated is required and the balance remaining is collected through property taxes.

In order to determine the amount of tax each property owner should pay, council sets a mill rate. The mill rate is the factor used to determine the amount of tax payable on an individual property. It will vary depending on how much money has to be collected through property taxes and the total assessment. For example, if the balance needed to meet the estimated operating budget is $200,000 and the total assessment is $10,000,000, the mill rate would be .020, arrived at as follows:

$$\frac{\$ \quad 200{,}000 \text{ (balance needed)}}{\$\ 10{,}000{,}000 \text{ (total assessment)}} = .020 \text{ (mill rate)}$$

Let's return to the urban bungalow with total assessed valued of $65,000. Suppose council set a mill rate of 20 mills, which translates into $20 for every thousand dollars of assessed value, the amount of tax payable would be calculated as follows:

$$\$65{,}000 \times .020 = \$1{,}300$$

If this assessment was made in a general assessment year, it may represent an increase or decrease over previous years, depending on current assessed values in relationship to the value established at the time of the previous general assessment.

Now what about the pilot project in Spruce Grove? What was achieved? How was it done and what are some of the benefits?

The Spruce Grove Experience

Pilot project approved

In the fall of 1984, Spruce Grove's mayor and council approved a proposal made by the area assessor of Alberta Municipal Affairs to participate in a pilot project to conduct annual general assessments of residential improvements for three years, beginning in 1985.

Annual General Assessments have been conducted before in Alberta. Between 1912 and 1918, for example, municipalities were required to conduct general assessments each year to ensure that changes in the value of property were reflected in the assessments. In 1985, the pilot project undertaken by the city of Spruce Grove and the Assessment Services Division of Alberta Municipal Affairs had many features impossible to imagine in 1912.

The use of computers, detailed assessment manuals, some of which are 500 pages long, and the complexities of relative property values are features of some modern municipal assessments. Spruce Grove's mayor, councillors, city administrators, as well as Alberta Municipal Affairs assessors, are in agreement that there are fewer surprises with the annual general assessment. When farmland and commercial/industrial properties are included in the next year or so, municipalities will have a complete picture available on an annual basis.

In 1982, a general assessment was conducted in Spruce Grove. Every property in the town was inspected. When it was decided to conduct annual general assessments, this data was entered into the M.A.R.C. system (Municipal Affairs Residential Computer) and software, plus additional information was supplied to the municipality.

For the municipality, subsequent updating has been a straightforward task for the operator and has proven to save manpower and money.

Start-up costs were higher than is the case with a standard general assessment, but in the long term, the computerized system has proven to be less expensive for the municipality.

In subsequent years, Alberta Municipal Affairs assessors re-inspected 20 percent of residential properties in Spruce Grove to confirm the base assessment. Assessors worked closely with Spruce Grove's administrative staff and have noted that municipal records, such as building permits, were accurate and up-to-date allowing the work to be done much faster.

Benefits for ratepayers

Under this system ratepayers see, from year to year, what is happening with their assessment and the resultant increase or decrease in their taxes makes more sense to them. The effects of economic change are picked up and reflected quickly in annual general assessments, so that ratepayers are not hit with dramatic increases. They also become more aware and better informed about their assessment, so there is less uncertainty and fewer complaints are made to municipal officials. Assessment appeals have declined from 50 with the seven-year general assessment conducted in 1982, to 17 in 1985 and about the same number in 1986.

Benefits for municipality

With a computerized system, conducting an annual general assessment is less expensive than one every seven years. In a community the size of Spruce Grove, a general assessment could cost from $150,000 to $200,000. In the Spruce Grove pilot project, actual costs for 1986 were $38,000 which includes part of the conversion. In subsequent years, costs are expected to be less once the conversion is complete.

The municipality also benefits as a result of fewer assessment complaints to the Court of Revision and fewer assessment appeals to the Alberta Assessment Appeal Board.

However, the most significant benefits are probably in terms of better budget control and more accurate tax roll records.

CONCLUSION

In the Spruce Grove experiment, assessors and municipal staff developed an ongoing co-operative working relationship which facilitated the annual general assessment and assured a high degree of accuracy and consistency in the results. Assessors also are able to respond to questions from the public with information based on current values which ratepayers understand more readily.

Spruce Grove has found that they have gained a more realistic picture of revenues, and as a result can better plan expenditures. Budget forecasting and control is strengthened and council's ability to oversee and deal with both short- and long-term projects and problems is enhanced.

For annual general assessments to work well and be cost-efficient, the municipality must have a computerized system, preferably compatible with M.A.R.C. in order to use Municipal Affairs software. Currently, testing is underway on software for farmland assessment. This is expected to be available by next year. Commercial/industrial software also is being developed.

Appendix A

CITY OF SPRUCE GROVE
410 King Street
Spruce Grove, Alberta
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Assessment Breakdown	1985	1986	Percent Decrease
Residential Land	45,259,790	43,430,655	5
Residential Improvement	118,714,577	113,451,790	5
Commercial Land	12,381,470	9,818,545	21
Commercial Improvement	15,052,780	14,353,430	5
Industrial Land	9,989,640	8,725,930	13
Industrial Improvement	15,352,328	14,764,030	4
Farm Land	655,920	621,180	6
Farm Improvement	192,935	0	0
Other			
Well Flow Land & Line Pipe	1,448,680	1,235,720	15
Electric Power	1,609,220	1,542,580	5
Cable T.V.	335,040	266,390	21
Franchise Land & Improvement	27,750	27,010	3
Grant in Lieu Land & Improvement	7733,510	7,232,660	7
Mobile Homes	43,695	41,212	6
T O T A L	**228,797,335**	**215,511,132**	**6**

Complaints from Ratepayers*

	1985	1986
Court of Revision Complaints	17	15
Population	11,569	11,897
Number of Ratepayers (total)	3,762	3,759
- Residential	3,262	3,309
- Commercial	106	97
- Industrial	175	172
- Farm	42	50

* Spruce Grove's last General Assessment was conducted in 1982. At that time, fifty ratepayers lodged complaints with the Court of Revision.